NOTES

WASHINGTON NOTES

SEPARATION OF RAIL FROM WATER CARRIERS

The Interstate Commerce Commission has handed down its first formal opinion of importance relating to the position of the railroads under the Panama Canal act of 1912. It will be recalled that that act, besides providing for regulation of the traffic of the Panama Canal, also provided that there should be a separation of ownership between railroads and water carriers under certain specified conditions. One provision of the act contained in section 5, was to the effect that subsequent to July 1, 1914, it should be unlawful for any railroad company or other common carrier

> to own, lease, operate, control, or have any interest whatsoever by stock ownership or otherwise either directly, indirectly, through any holding company, or by stockholders and directors in common or in any other manner, in any common carrier by water operated through the Panama Canal or elsewhere with which said railroad or other carrier aforesaid does or may compete for traffic, or any vessel carrying freight or passengers upon said water route or elsewhere with which said railroad or other carrier aforesaid does or may compete for traffic, and in case of the violation of this provision each day in which such violation continues shall be deemed a separate offense.

Under the provisions of this act, certain railroads applied to the Commission for an extension of time during which their interests in, and operations of, certain boat lines plying on the Great Lakes might be continued, and this question is now determined by the Commission (in opinions No. 6765, New York Central & Hudson River R.R. Company, and No. 6874, Delaware, Lackawanna & Western R.R. Company).

The first important question arising under the applications of the roads in question was whether or not, within the meaning of the Panama Canal act, there was or might be competition for traffic between the vessels operated and the railroads interested in them. The Commission holds that the question would easily be answered in the affirmative if the ports of call were served in common by the boats and by the paralleling rails of the owning railroad. The facts, however, show that no such case is made out on the records presented because no two ports of call are

served in common by the boats and the paralleling rails of the particular owning railroad.

From this conclusion the Commission is led to a consideration of the true status of what is called "The Lake Lines Association." It finds that although in the cases of the two petitioning roads in which decisions are now rendered there may not be direct competition between the boat lines and the rails of the systems, yet the membership and activity of the roads in this association or a participation in any like understanding places them in a position inimical to the best interests of their boat lines. "Placed in such an attitude," the Commission concludes, "these roads, through the agency of other roads with which they are partners, become the competitors of their own boat lines." The Commission then continues:

The lake lines in which the petitioners are interested have been shorn of the initial rate-making power. This power has been usurped by the Trunk Line Association of which the petitioners are members. The through rates controlled by this authority, in which the boat lines are merely concurring carriers, determine for the shipper which lake line must be used. The particular route is controlled by applying arbitrary switching charges at Buffalo, which compels the through lake and rail traffic to move via the predetermined lake line. The zones of territory to be served and those not to be served by the lake lines are also determined by this outside authority.

Inasmuch as the applications do not call for the extension of a service operating through the Panama Canal, the fact that competition exists, actually or potentially, does not require the separation of the railroads from the boat lines in which they are interested. The Panama Canal act stated that

if the Interstate Commerce Commission shall be of the opinion that any such existing specified service by water other than through the Panama Canal is being operated in the interest of the public, the Interstate Commerce Commission may by order extend the time during which such service by water may continue to be operated beyond July 1, 1914.

This question is then taken up by the Commission and the conclusion is reached that the joint ownership and operation of these boat lines has resulted in no real benefit to the people and that the operation is not in the interest of the public or of advantage to the convenience and commerce of the nation. This conclusion is based upon a review of the history of the lake lines since about 1900, when trunk-line railroad control over them was being gradually perfected. Since then, the first-class lake and rail rate from New York to Chicago has been gradually advanced

from 54 cents to 62 cents. In 1910, the trunk lines interested agreed that the lake and rail rates should actually be advanced to the all-rail basis, thus wiping out the differential except on first class, which was to be advanced from 62 to 70 cents. This action was thwarted only by the refusal of a foreign railroad owning a lake line to assent to the plan. The successive advances had the effect not only of preventing an increase in lake line tonnage, but of diverting from the lake routes to the all-rail lines a part of the tonnage which formerly moved on the lakes. It appears to be indicated that the purpose of the advances in lake and rail rates was to divert tonnage to the all-rail lines, so that the lake boats have operated with small cargoes, although their operating expense was almost as great as if they had been fully loaded. This in turn resulted in a high operating cost to the lake lines per unit of freight. On the strength of this, the Commission bases its conclusion that none of the services in question is being operated in the interest of the public. The applications for power to continue the interest of the railroads in the lake lines are consequently denied, and it would appear that a legal severance must therefore be effected in the near future.

GROWTH OF A NATIONAL FISCAL PROBLEM

It is now evident that the balance in the general fund of the Treasury Department will be little more than sufficient to carry the national outlays to July 1, 1915, the end of the current fiscal year. A monthly deficit of about $10,000,000 is now being incurred, while the balance in the general fund on May 15 was $15,000,000, or a sum practically sufficient to meet the deficit up to July 1, not allowing for unusual demands of any description. During the latter half of June, the receipts from the corporation and income tax will be paid in, and these, according to forecasts based upon returns already filed, it now appears, are likely to amount to from $65,000,000 to $80,000,000. There is, therefore, every reason to expect that the Treasury Department will be able, if it chooses, to finish the present fiscal year without floating a loan. With the sum of money already referred to in hand at the opening of the new fiscal year, it can then theoretically meet deficits at the present rate for seven or eight months longer, or until February, 1916. Undoubtedly it had been hoped by the more optimistic of those in charge of the situation that there would be a speedy termination of the European war and that, in consequence, it would be possible to replenish the Treasury through early recovery of the revenues of the government, thereby obviating any necessity for borrowing. Aside from the fact that there is now no

apparent reason to look for such improvement in conditions, inasmuch as there is no indication of an early end of the war and no signs of any considerable growth in importations, there are several circumstances which make the fiscal outlook particularly unsatisfactory. The war revenue tax of last autumn is yielding very decidedly less than many had expected and there is no reason to attribute this to any special defect in its administration, but solely to the unproductiveness of the tax under existing conditions. The prospect of diplomatic difficulties with Germany has rendered the situation still more discouraging, and should any increase be made in "military preparedness" there would necessarily be a corresponding increase in the outlay of the government for war and naval material. This would, to a similar degree, enlarge the already heavy liabilities imposed upon the Treasury by Congress through the enormous appropriation bills of last summer and autumn.

According to the best analysts of the situation, nothing short of a general reorganization of the fiscal system of the United States will meet the exigencies of the coming years. A mere issue of bonds will not be a satisfactory measure, unless the issue be made solely for the purpose of tiding over a sudden emergency; for if it should appear that the necessity grows out of a permanent shortage of revenues or a sudden demand for a very large increase in expenditure such as will be required by the development of hostilities with a foreign power, the bonds could not be satisfactorily floated without adequate taxation to support them. This could certainly not be provided through the reorganization of the tariff, since, as generally recognized, the duties will be likely to prove as inadequate as they were during the Civil War, while the present yield of internal revenue is already required to enable the government to keep up its current payments for ordinary expenses. It would appear probable, therefore, that the nation is necessarily about to enter upon another epoch of fiscal readjustment, due to the breaking down of the tariff and the uncertainty of the outlook for future revenues. Nothing of course can be done until the reassembling of Congress. Should Congress be called in extraordinary session, however, the revenue situation would almost necessarily constitute one of its first and most important subjects of deliberation. Should Congress not be thus summoned, but should the advent of the regular session be awaited, the question would still remain whether a small issue of bonds for the purpose of preventing the Treasury from becoming entirely exhausted may or may not be necessary. Meanwhile, the degree of the depletion of the funds is indicated in a number of incidental but significant ways, among which is the inclination

to pay out silver certificates of large denominations whenever possible, instead of holding them as heretofore in the vaults of the subtreasuries.

FEDERAL RESERVE BULLETIN

The Federal Reserve Board has begun the issue of a publication to be known as the *Federal Reserve Bulletin,* to be distributed periodically for the purpose of keeping the member banks and the federal reserve banks in touch with the policies and rulings of the Board itself. The first number is dated May 1, and includes a review of the work of the Board since the date of issue of its annual report in January last, a complete outline of the plan for clearing checks within and between the several districts, a digest of the informal rulings of the Board as embodied in letters to inquirers, a collection of opinions rendered by counsel of the Board on questions affecting banking, a list of the banks to which trustee powers have been granted, a discussion of the new development of bankers' acceptances, a reproduction of the circulars issued during the current year by the Board, and a variety of miscellaneous pieces of information regarding the work of the federal reserve system. The closing feature of the *Bulletin* is a general review of the business conditions in the several reserve districts as affecting the operations and positions of the federal reserve banks themselves. While most of the facts that are reviewed in the new publication have been more or less fully given to the public, the *Bulletin* contains a considerable amount of data that have not heretofore been made available in any complete or well-rounded form. There is also a large amount of technical information such as the text of the opinions of counsel of the Board on various banking questions that have been submitted to him which is, too, distinctly new, nothing on the subject having been made public heretofore. One of the most interesting special features of this issue of the *Bulletin* is found in the discussion of the acceptance business which has sprung up largely as a result of the changed export and import conditions growing out of the European war. In speaking of the general situation as to the acceptance business, the Board says:

The importance of the development of this banking instrument is now beginning to be generally understood, and inquiries which have been made indicate that additional banks are preparing to offer accepting facilities to their customers. From the point of view of the development of a stable market in New York City for dollar acceptances, this is of importance, for such a market depends primarily upon a large, steady volume and low, steady rates. Several banks and firms dealing in bills have also, largely within the present month, begun to quote forward rates on bills drawn in dollars, so that exporters in distant countries may be able to calculate the comparative negotiable value of

sterling and dollar drafts. This is also of fundamental importance in the development of the acceptance business. When the movement of our exports and imports has been sufficiently standardized through bankers' acceptances so that it may be facilitated as easily in the New York as in the London market, even though the volume in the New York market may be much smaller, we should be enabled readily in future, when we wish to protect our reserves or when they are needed for domestic expansion or seasonal movements of commodities, to deflect the financing of our foreign trade from New York to London by raising New York rates above London rates and making it cheaper for the shipper to draw on London than on New York.

The following table shows the amount and classes of acceptances held by federal reserve banks at about the end of April, with the name of the institution which made them.

Acceptances Held by Federal Reserve Banks on April 26, 1915

[In thousands of dollars]

A. MEMBER BANKS' ACCEPTANCES	
American Exchange National Bank, New York City	$ 415
Bank of New York, National Banking Association, New York City	625
Continental and Commercial National Bank, Chicago, Ill.	3
First National Bank of Boston, Boston, Mass	1,595
First National Bank of Chicago, Chicago, Ill	4
Irving National Bank, New York City	5
Market and Fulton National Bank, New York City	3
Merchants National Bank, New York City	50
National Bank of Commerce, New York City	13
National City Bank of New York, New York City	1,381
Philadelphia National Bank, Philadelphia, Pa	499
Total amount of member banks' acceptances	$4,593
B. NON-MEMBER BANKS' ACCEPTANCES	
1. *Trust Companies*	
Bankers' Trust Co., New York City	$ 1,385
Guaranty Trust Co., New York City	7,413
Old Colony Trust Co., Boston, Mass	50
	$ 8,848
2. *State Banks*	
Bank of America, New York City	10
C. PRIVATE BANKS	
Goldman, Sachs & Co., New York City	110
Grand total	$13,561

The distribution is of much interest as showing how highly centralized the acceptance business still is—that is to say, how small a degree of diffusion between different institutions has thus far been attained.

A CHANGE IN THE INTERNATIONAL BALANCE

Another of the notable changes through which the foreign trade of the United States has passed in the course of the present European war has been brought on by the development of a broad and active market for securities in New York City. From about the first of April onward, demand for stocks and bonds was strong and during the month of April the number of shares dealt in was in the neighborhood of 20,000,000 as compared with an aggregate of 17,333,471 during the three months of January, February, and March. While it is true that in the early part of the month of April and to some extent later on, there were large advances in the securities of a number of special industries, which, it was believed, would benefit largely from orders for war material from belligerent nations, the striking feature of the market situation was seen in a general advance throughout the list of stocks and bonds due to the development of new demand and the more free investment of capital on the part of individuals who had been holding back their accumulated funds for some time past. This rise in the market has been accompanied by sales of securities for foreign account which have been increased in volume as time has gone on, although freedom in dealings between the New York and London stock markets has been somewhat impeded by the continuance of the rule of the New York Stock Exchange restricting the normal arbitrage transactions. Many of these sales were made for cash. It is of course difficult to trace security transactions, as has been currently observed, in a volume of deposits and loans so large as that which makes up the total business of the New York banks. The facts, however, that in spite of the activity of the stock market the loans of the New York Clearing-House banks increased but little more than $1,000,000 during April, while call rates showed practically no change for the month, and large New York banks reported only a small volume of loans made for out-of-town correspondents, tended to confirm the belief that many of the purchases of securities had been made on a cash basis, as indicated. An increasing volume, nevertheless, has undoubtedly been taken by buyers upon the basis of borrowed money obtained from the banks. This situation is the correlative of the export conditions under which goods are being sent abroad in large quantities without any corresponding purchases by us from other countries. For its shipments of goods, the United States is now receiving a certain amount of offsetting (imported) goods, a smaller quantity of gold, and a very large volume of securities. These securities have been in considerable measure the bond issues of foreign governments. The advance in the price of American shares and bonds and the increasingly good market for them is now attracting from

abroad a growing proportion of those heretofore held by foreign investors. Various estimates have been made of the amount probably returned in this way, most of them ranging from $500,000,000 to $1,000,000,000, and all agreeing that the sum actually taken and paid for is already very large, whatever the final figure may turn out to be. Fears are expressed in not a few quarters that the securities of foreign governments which have been freely purchased may not prove to be entirely good, owing either to repudiation or to the scaling down of obligations. That this danger had been perceived and that investors are consequently turning to the securities issued by American enterprises as a preferable means of payment is indicated by the advance in prices on the stock exchanges and by the movement of American bonds and shares toward this country. The purchases thus made result, through the credit mechanism of the country, in a redistribution of ownership whereby the sellers of the export commodities of the United States are paid off by turning over (in the last analysis) American stocks and bonds to American investors who have current funds for use. This is the essential meaning of the advance in prices on the stock exchanges of the country, and is the method of settling international financial obligations between the United States and European countries that has been looked forward to for some time past by students of the situation.

The latest current development in the situation is an increase in the volume of gold shipped to the United States from foreign countries and necessary to eke out the securities shipped in payment for enormous foreign purchases of American foodstuffs. A compilation of returns received by telegraph from the various custom-houses shows the following results:

IMPORTS OF GOLD, BY CUSTOMS DISTRICTS, JAN. 1 TO MAY 21, 1915

(In thousands of dollars)

	Jan. 1 to Apr. 30	Week Ending May 7	Week Ending May 14	Week Ending May 21	Jan. 1 to May 21
Ore and base bullion	3,566	251	350	272	4,439
Bullion, refined	13,896	984	358	251	15,489
United States coin	34,333	2,501	22	10,257	47,112
Foreign coin	9,651	504	2,282	55	12,439
Total	61,446	4,240	3,012	10,835	79,533

The figures as thus stated by periods show the current tendency to growth, the amount imported during May being one-third or more of the total imported from January 1 to April 30. It is interesting to observe that of the total of about $80,000,000 accounted for in this table about $40,000,000, or one-half, came by way of Ogdensburg and represents the return of the funds which Great Britain drew from us by way of Ottawa last autumn.